AN OVERVIEW OF THE NIGERIAN DEBT CAPITAL MARKET

Mounir Gwarzo
Director-General
Securities and Exchange Commission, Nigeria

FMDQ 2017 Nigerian Debt Capital Markets Conference

28 September, 2017
PROTOCOLS
OUTLINE

• Introduction
• Role of Capital Market in an Economy
• Global Debt Capital Market
• Nigeria Debt Capital Market
• Milestones Achieved in the Nigerian Debt Capital Market
• Growth in Issuance of the Nigerian Debt Market
• Growth in Transactions of the Nigerian Debt Market
• Operational Structure of the Nigerian Debt Market
• Regulatory Structure of the Nigerian Debt Market
• Milestones Achieved in the Nigerian Debt Market
• Nigerian Bond Market and Sustainable Finance
• Nigerian Bond Market and Infrastructure Financing
• Contribution of the Nigerian Debt Capital Market in accelerating the growth of robust and efficient financial market infrastructures
• Some policy issues
• Capital market can be used as a source of financing of an economy.
• In US for example, the capital market is the largest source of financing supplying over $8 trillion in corporate debts and even more in mortgage funding.
• Capital market has also aided other corporate bodies raise long term capital needed for financing projects.
• The capital market serves as a form of investment for both individuals in an economy and foreign investors.
• This foreign investment thus increase foreign capital flows.
• The capital market also serves as a means of measuring the economic situation of a country.
• Thus, enabling the government take appropriate decisions based on the outcome.
• In the international debt market, fixed-interest securities are traded such as government, municipal, corporate or mortgage bonds.
• In most countries, the bond market is usually larger than stock market.
• The US Bond Market is currently worth about $37trillion which is 2.6 times the size of the stock market.
• The value of deals on the international debt market as at the end of quarter 2, 2017 was $1.2trillion.
• The government of China recently decided to make $9trillion domestic bonds global by making it available for international investors.
The Nigerian Debt Market was dominated by Corporate Bonds and Development Stocks until the 1980s.

Development stocks were the major government related instruments traded.

There was little regulatory structure and uncoordinated bond market management and planning with less involvement of the Federal Government of Nigeria.

The first Nigeria Development Loan Stock of N2million was issued in 1959 and this has grown over time. As at 1986, there had been 24 Development Loan Stocks.
THE NIGERIAN DEBT CAPITAL MARKET (Recent)

• Following the establishment of the DMO in 2000.
• The government bond market activities were revived after 18 years of dormancy through the issuance of FGN bonds in 2003.
• FGN bonds worth N72.56 billion were issued in 2003 to finance various capital projects.
• Market Data from the FMDQ and the CSCS in 2016 showed the following on combined OTC market and exchange trades:
  - N13.812 trillion in terms of total face value of transaction
  - N15.745 trillion in terms of consideration
  - 50,426 in terms of Number of deals
THE NIGERIAN DEBT CAPITAL MARKET Cont’d

• These figures were higher than the corresponding figures of 2015 by 45.5%, 6.34% and 7.79% respectively.

• As at August 2017, the market capitalization of the domestic bonds market stood at N7.4 trillion.

• Indicating a growth of 11.5% over August 2016.

• The market capitalization of the debt capital market accounts for 37% of the total market capitalization.

• 7.11% of the GDP.
The FGN bonds have been consistently over subscribed in the last five years.

In the year 2016, the total amount offered was N1.235 trillion while total subscription was N2.126 trillion representing over subscription of 172.13% compared to N204.31% in 2015.

The total allotment in 2016 amounted to N1.308 trillion against N998.74 billion in 2015.

Between January and August 2017, total FGN bonds allotted was N1.011 trillion.

At the sub-National level, only Lagos State successfully accessed the domestic bond market in 2016 and 2017 raising N47 billion and N85.10 billion respectively compared to seven states’ total of N60.95 billion in 2015.

The corporate bond segment of the domestic debt market was relatively active in 2016 as seven corporates raised the sum of N108.04 billion against N48.04 billion in 2015.


- The combined OTC Market and Exchange Trades in 2016 in terms of Total Face Value of Transactions, Consideration and Number of Deals were N13.812 trillion, N15.745 trillion and 50,427 respectively.

- The level of performance recorded in 2016 were higher than the corresponding figures of N9.493 trillion, N9.581 trillion in 46,867 deals in 2015.

- This represents increases of 45.5%, 64.34% and 7.6% respectively.

- On the NSE platform, Total FGN Bonds transaction from January to August shows a total volume of 262,446 in 251 deals, valued at N247.71 Million.

- On the FMDQ platform, debt securities worth N6,508,887 billion were traded between January and August 2017.
As at August 2017, the size of the Nigerian Debt Market was 7.4 trillion.

FGN bonds was valued at 6.5 trillion (88%), State Government valued at 563.6 billion (7.6%), Corporate bonds 297.4 billion (4%) and Supra-Nationals was 24.95 (0.3%)

Tenors of instruments on the debt market are usually 5, 10 or 20 years.

Over the last 5 years, there have been oversubscriptions of the FGN Bonds. This is a positive remark on the debt market.
REGULATORY STRUCTURE OF THE NIGERIAN DEBT MARKET

• One of the major determinants of a thriving investment environment is the suitability of regulation.
• This is largely co-ordinated by the government through its agencies, policies and guidelines in place.
• In Nigeria, the primary regulators comprise the Debt Management Office (DMO), the Central Bank of Nigeria (CBN) and the Securities and Exchange Commission.
• The Debt Management Office coordinates the debt activities and profile of the country, which include debt service forecasts and debt payment.
• The DMO also facilitates the listing of newly issued FGN Bonds by paying listing fees to the Nigerian Stock Exchange annually.
• The Central Bank of Nigeria acts as an issuing house and also a settlement bank for the debt market.
• CBN also monitors and ensures the efficiency of the debt capital market by participating in the Bond Market Steering Committee.
• The Securities and Exchange Commission supervises the debt capital market through the Nigerian Stock Exchange and the FMDQ.
• To ensure orderly and equitable dealings in securities and prevent the market against unwanted trading activities.
MILESTONES ACHIEVED IN THE NIGERIAN DEBT CAPITAL MARKET

Reform of the Bond Market

- Introduced book building for better price discovery;
- Introduced shelf registration to fast track issuance process;
- Introduced several rules and rule changes;
- Separated disclosure rules on bonds (simplified) issuance from equities to encourage bond offerings and in line with best practice;
- Presidential tax waiver on bonds which removed discrimination on corporate and subnational bonds vis-a-vis FGN bonds;
- Developed bond issuance templates to guide market operators and issuers when drafting offer documents for bond;
- Organized bond training programmes to improve capacity in the bond market;
- Bond issuance by IFC and AfDB for the first time.
Non-Interest Products

- First Sukuk – Islamic bond issued by Osun State - ₦11.4 billion for various infrastructure projects;
- Subscription level shows appetite for Non-Interest instruments.
- In collaboration with Debt Management Office (DMO) and other stakeholders, the first sovereign sukuk worth N100 billion was issued.
- Embarking on aggressive enlightenment across the geopolitical zones.
- The CBN has granted liquidity status to sukuk.
MILESTONES ACHIEVED IN THE NIGERIAN DEBT CAPITAL MARKET Cont’d

Recent Milestones

• Listing of Nigeria’s first Diaspora bond on the London Stock Exchange which raised $300 million.

• Listing of the Chapel Hill Denham Nigeria Infrastructure Debt Fund, valued at N5 billion.

• The listing of the first foreign currency-denominated bond – $1 billion FGN Eurobond in the first quarter of the year.

• Launching of the Debt Market Capital Development Project in the last quarter of 2016.
The FGN plans to issue the first African sovereign green bond worth N150 billion.

The first tranche of N12.384 billion was expected in the third quarter of 2017.

To fund Education, Renewable Energy Micro Utility and Afforestation programs.

The Paris Agreement accords countries who are signatories monetary contributions to further the green bond initiatives.

This is positive for foreign exchange.
Nigeria’s Infrastructural Needs and DCM

- Nigeria has committed a lot of resources to its infrastructure development over the years, but much is still required.
  - The recent Economic Growth and Recovery Plan (ERGP) equally emphasizes this.
- AfDB (2013) shows that Nigeria’s GDP growth can rise by 4% if its infrastructure is scaled up to the African region’s middle income countries.
- Nigeria needs to invest US$350 billion in its infrastructure sector between 2011 and 2020.
- Current system where the Federal Government is the primary financier of infrastructure projects in Nigeria is found to be unsustainable.
- AfDB estimates a total sum of $131.2b is expected to be mobilised from the private sector.
  - 75% ($98.4b) of this is expected to be financed by the debt market.
NIGERIA’S PRIVATE INVESTMENT NEEDS AND DCM

• Nigeria needs to increase private investment to consolidate on the recent exit from recession
  – Investment is still less than 15% of GDP and consumption over 75% of GDP
• The ERGP also underscores the roles of the private sector in leading the growth that Nigeria desires
• The country cannot continue to rely on owners’ capital and short-term funding from commercial banks
• There is the need to access long-term capital from the DCM
SOME POLICY ISSUES

• The Federal Government dominates the bond market
  – Not bad if proceeds are used to finance capital projects
  – But FGN can crowd out private issuers.
• High interest rate
  – This affect coupon rate and can discourage private issuers
• Governments need to issue dedicated Infrastructure Project Bonds and Revenue Bonds
  – Instead of reliance on budget and ISPO based on FAAC which is not affected by fall in oil price
• Banks using short-term deposits to finance long-term lending
  – So, banks have high non-performing loans of 15%, which is too high
  – This is a mismatch as the debt capital market is expected to provide long-term capital
• Apathy towards disclosure
  – Regulator is encouraging full disclosure and its benefit
• Turnover and secondary trading still low as most investors adopt a buy-and-hold strategy.
  – The advent of FMDQ is helping solve this problem
• Need for credit enhancements programme
  – Guarantco, Infracredit, AfDB working on this
• Turn around time for bond issuance
  – Regulator has developed a flowchart to reduce registration and aid time to market
• High transaction cost
  – Regulator has reduced transaction fees and is currently working on another reduction.
THANK YOU
REFERENCES

II. Securities and Exchange Commission: Statistical Bulletin
III. Securities and Exchange Commission: www.sec.gov.ng
V. Debt Management Office (DMO): 2016 Annual Report
VI. Debt Management Office (DMO): www.dmo.gov.ng
VIII. Financial Market Dealers Quotation (FMDQ): www.fmdqotc.com
X. http://foreignpolicy.com/2017/07/03/china-opens-its-bond-market-to-international-investors/
XI. https://medium.com/@TheAsoVilla/issuing-nigerias-green-bonds-990f6d03dc8
XII. www.infracredit.ng